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RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
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RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH
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RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 0153
RUEHNE/AMEMBASSY NEW DELHI 4775
RUEHBUL/AMEMBASSY KABUL 0167
RUEHLH/AMCONSUL LAHORE 7102
RUEHKP/AMCONSUL KARACHI 1505
RUEHPW/AMCONSUL PESHAWAR 6045
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

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SUBJ: BI-WEEKLY REPORT ON ECONOMIC ISSUES, 22 APRIL 2009

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TOP STORIES
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[1](#)1. (SBU) The Friends of Democratic Pakistan met in Tokyo to pledge USD 5.28 billion over two years to stabilize Pakistan's economy and to support investment in healthcare, education, and infrastructure.

[1](#)2. (SBU) The State Bank of Pakistan (SBP) lowered the discount rate by 100 basis points to 14 percent on April 20. SBP Governor Raza cited the positive inflation outlook as the main factor behind the decision. However, the Chambers of Commerce for Multan, Rawalpindi, Islamabad, and Tribal Areas have all deemed the cut in the discount rate inadequate.

[1](#)3. (SBU) According to Dr. Ashfaque Hasan Khan, former Special Secretary on Finance, Pakistan's GDP is forecasted to decrease USD

4.9 billion this year. The Nominal Gross Domestic Product is expected to be USD 162.6 billion in 2008-2009, down from USD 167.2 billion last fiscal year. Foreign investment declined by 36 percent during the first nine months of the fiscal year, while the output of the country's large-scale manufacturing declined 5.73 per cent.

14. (SBU) Pakistan's current account deficit decreased USD 2 billion, approximately 21 percent, during the first nine months of the current fiscal year. The decrease was mainly due to higher home remittances and a sharp decline in the trade deficit.

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BANKING AND FINANCE
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15. (SBU) The Securities and Exchange Commission of Pakistan (SECP) announced the discontinuation of the carry forward system (CFS) and deliverable futures products according to Business Recorder. Investors in the equity market were reportedly disappointed with SECP's decision because they expected an alternative to be announced, not just an end to the existing system. (Comment: KSE official Anita Mirza denied the news on April 9 and said the SECP decision to discontinue CFS had no impact on the market because CSF investment was already low.)

16. (SBU) On April 11, The News reported that bank officials called off a merger between KASB Bank and Atlas Bank after they failed to

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agree on a swap ratio. However, Atlas Bank may now merge with Saudi Pak Commercial Bank (SPCB) instead. The merger is subject to approval by the State Bank of Pakistan and other regulatory bodies. The SBP has been pushing for mergers and acquisitions to consolidate the banking industry as recent high inter-bank lending rates have compounded difficulties for smaller banks. (Comment: Atlas Bank official confirmed on April 15 that there would be no merger with KASB because negotiations did not materialize and were finally called off. Atlas Bank confirmed it was negotiating with SPCB saying that both banks are busy performing due diligence and that it will take at least three months to finalize the deal.)

17. (SBU) Two of the largest Pakistani banks, Habib Bank Limited and Muslim Commercial Bank (MCB), expressed their interest to the Karachi Stock Exchange (KSE), in separate notices to acquire domestic operations over Royal Bank of Scotland (RBS). The banks said they were applying to the State Bank of Pakistan (SBP) to start their due diligence of RBS Pakistan. On April 14, Jahangir Siddiqui and Co. Ltd (JSCL), a Karachi-based financial services company, also expressed its interest in buying RBS Pakistan. RBS, which has a market capitalization of approximately USD 266 million, ventured into the Pakistani market after acquiring global operations of ABN AMRO last year. It decided to sell off its operations in 36 countries, including Pakistan, after booking huge losses from sub-prime mortgages. (Comment: Notices from both banks can be found on the KSE website. JSCL Corporate Communication department confirmed the news, but said it is in the preliminary stages of due diligence.)

18. (SBU) The SBP announced the capital requirement reduction on April 15 to boost the banking sector. The bank reduced its previous limit of Rs 23 billion (USD 287 million) to Rs 10 billion (USD 125 million). According to the SBP circular, it will require banks to raise their minimum paid-up capital (free of losses) on a sliding scale, culminating in Rs 10 billion by December 31, 2013. SBP stated it took this action "in view of the global slowdown in growth and capital accumulation by financial institutions and representations from shareholders." (Comment: Complete text of the circular can be found on the SBP website.)

19. (SBU) The Karachi Stock Exchange (KSE)-100 index was up last week. KSE ended April 17 at 7,794.95, 2.32 percent above its April 10 closing. The total share turnover was down to 259.36 million from 372.94 million during the prior week. Market capitalization

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rose slightly to USD 28.88 billion. The net foreign investment outflow was USD 6.5 million, after a small inflow the week before. The banking, energy, fertilizer and cement sectors remained among the top performers. (Comment: KSE contacts told Post that the expectations of a substantial commitment from Friends of Pakistan coupled with the anticipation of interest rate cuts and the State Bank of Pakistan's decision to reduce minimum capital requirements for banks were the major factors in the market increase.)

¶10. (SBU) The Lahore Stock Exchange (LSE) has been volatile, but still rose almost three percent over the last two weeks. Most analysts attributed a string of losses April 14-17 to the Pakistan Muslim League-Nawaz's (PML-N) deliberations about, and ultimate rejection of, an offer to join the Pakistan People's Party (PPP)-led coalition national government. The LSE rose again April 20 on news of a successful Friends of Democratic Pakistan meeting.

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ENERGY AND POWER
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¶11. (SBU) Prime Minister Yousuf Raza Gilani inaugurated the Zorlu Wind Energy Project on April 19. A Turkish company, Zorlu Enerji Group, established the plant at Jhimpir, Thatta, Sindh. The first phase of the wind power plant will produce 6MW from 5 wind turbines and will meet the electricity demands of 7,400 homes. By the end of 2010, the wind farm will produce 300MW and the wind turbines will displace 10,500 tons of carbon dioxide pollution each year. At the inauguration, Prime Minister Gilani said an additional 24 wind farm projects, with a cumulative capacity of 1,200MW, are under various stages of development. (Comment: CG Karachi and EconOff attended the inauguration. During his remarks, the PM stated that development of alternative energy was important for Pakistan's energy security, reducing pollution, and decreasing dependence on oil imports. He heralded the project as "green, economical, and indigenous" power, and a new era for Pakistan.)

¶12. (SBU) Pakistani media reported on the particularly negative impact of load-shedding (rolling blackouts) on the textile industry. The energy problems hit Faisalabad especially hard, home to roughly 60 percent of Pakistan's textile exports, according to the Faisalabad Chamber of Commerce and Industry. Sheikh Ashfaq Ahmed, Chairman of the Faisalabad Dry Port Trust, told the press that Faisalabad port business was down 40 percent over the last 5 months

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due to load shedding and inconsistent gas supplies. (Comment: Consulate Lahore is aware of at least one U.S. company that may be unable to expand its plant because of inconsistent gas deliveries.)

¶13. (SBU) Prime Minister Gilani officially inaugurated the 165 MW Attock Generation Power Plant in northern Punjab, which began operation in March. The government also announced the expansion of the Chashma power complex which will include two new plants expected to generate a total of 680 MW. (Comment: This presumably represents the decision to purchase two additional Chinese-built reactors for Chashma initially announced at the time of Zardari's first official visit to China last year. End Comment.)

¶14. (SBU) Business Recorder reported that Matrix Group Consulting Limited (MGCL), a US-based company, will construct two power plants totaling USD 1 billion at Port Qasim (PQA) and Karachi Port (KPT). The PQA plant will run on coal while the KPT plant will use wind energy. MGCL President Cathleen M. Ihasz said her company plans to bring more energy and infrastructure investment and development to Pakistan. (Comment: KPT Public Relations Manager confirmed that two new plants will be built on April 14. He said that the Matrix Group is in the very preliminary stages of preparing a technical report for these projects, and more details would emerge soon.)

¶15. (SBU) On April 15, Business Recorder reported that the Karachi Electric Supply Company (KESC) initiated a new "scorecard" under an accountability and transparency drive to combat Karachi's power crisis. The strategy includes attracting millions of dollars in investment as well as planning several new power plants (totaling

960MW), grid stations and feeders. KESC will also increase system monitoring and work to improve transmission and distribution. (Comment: KESC Director Operations announced that it will invest USD 361 million and noted that the city will continue to suffer prolonged power outages until management invests to increase power generation capacity, works to reduce transmission and distribution losses (including theft), and improves management/employee relations.)

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AGRICULTURE
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¶16. (SBU) Pakistan's rice exports increased to USD 1.55 billion according to Business Recorder. Rice exports will likely reach USD

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2.2 billion by the end of the current fiscal year. Abdul Rahim Janoo, Chairman of the Rice Exporters Association of Pakistan (REAP), said new rice markets are possible as Pakistan also seeks to recapture traditional markets.

¶17. (SBU) According to Pakistani media reports, the provincial Punjab government increased its target acquisition of wheat to 4 million metric tons, up from its initial estimate of 3 million tons. The bumper wheat crop may cover deficiencies in other provinces. The yield of wheat is also up 5-7 percent in Sindh compared to this time last year.

¶18. (SBU) Chief Minister Shahbaz Sharif shelved the "One Rupee Roti" proposal, but intends to continue Two Rupee Roti scheme "indefinitely" according to reports in the News and Daily Times. Pakistani media also reported on the Chief Minister's promise to make the provincial Annual Development Plan (ADP) more "poor-friendly," enhancing Sharif's populist credentials.

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TAXATION
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¶19. (SBU) Shaukat Tarin, Adviser to the Prime Minister on Finance and Economic Affairs, spoke at the Overseas Chamber of Commerce & Industry (OCCI) on April 7. During his remarks, Tarin stated that the Pakistani economy shows signs of improvement. He insisted on the need for tax reform, and reducing the types of taxes to income and consumption. Future plans to broaden the tax net may include adding taxes on real estate, agriculture, and capital gains. Tarin also categorically ruled out any reduction in the defense budget.

¶20. (SBU) Speaking at a press conference on April 9, Shabbir Ahmed, Chairman of the Pakistan Bedwear Exporters Association (PBEA), said the government may impose an 18 per cent value-added tax (VAT) on the textile sector next fiscal year. The Towel Manufacturers' Association of Pakistan (TMAP) and PBEA called the imposition of VAT an "anti-industry and anti-employee" move by the government. Ahmed said the VAT would create cash-flow problems for the industry, and called on the GOP to establish a UK like tax refund system (exporters receives a refund as soon as the shipment reaches ports) or to not impose a VAT. (Comment: Pearl Fabric, one of the major stakeholders in towel exports, told post the Advisor to Finance and Textile Minister assured the company that the government will not

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impose VAT on any of the textiles exporting categories.)

PATTERSON